

# Trickle Research

Every raging river, every great lake, every  
deep blue sea starts ... with a trickle



## Price Target Increase & Allocation Decrease



**HireQuest, Inc.**

(Nasdaq Symbol: HQI)

Report Date: 02/17/21

Allocation: \*\*4

12- 24 month Price Target (split adjusted): \*\$20.00

Closing Stock Price at Initiation (Split Adjusted Close 9/08/17): \$4.44

Closing Stock Price at Allocation Increase (Close 11/13/18): \$3.88

Closing Stock Price at Price Target Increase (Close 10/05/20): \$7.73

Closing Stock Price at Price Target Update (Close 02/08/21): \$13.15

Closing Stock Price at This Price Target Update and Allocation Downgrade  
(Close 02/16/21): \$14.84

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In the words of Yogi Berra... "its Deja vu all over again".

About a week ago, we provided an Allocation Upgrade of HireQuest as a result of their acquisition of Texas based Snelling Staffing. As a result of the integration of that acquisition we raised our price target accordingly, as we worked our assumptions regarding that addition into our model. On the heels of *that* transaction, the Company announced the following additional acquisition, which for reference is roughly 70% the size of the Snelling acquisition in terms of locations.

***HireQuest, Inc. Announces Acquisition of LINK Staffing***

***HireQuest Acquires 35 Franchised Locations in 9 States, With Concentrations in Florida and Texas***

*HireQuest, Inc. (Nasdaq: HQI), a national franchisor of on-demand and temporary staffing services, today announced that its subsidiary, HQ Link Corporation, has entered into a definitive agreement to acquire the franchised operations of LINK Staffing, a family-owned staffing company based in Houston, Texas, for approximately \$11 million in cash. The transaction does not include working capital. The 35 acquired locations generated approximately \$57 million in system-wide sales in 2020.*

*"This acquisition, combined with the pending acquisition of the assets of Snelling Staffing, dramatically expands our commercial staffing business," commented Rick Hermanns, HireQuest's President and Chief Executive Officer. "Combined, these two acquisitions should give us more than 80 commercial staffing locations after normal attrition and consolidation, creating a compelling national presence. We believe we are well positioned to take advantage of the economic recovery as the economy begins to normalize and have acquired LINK and Snelling at an opportune moment. LINK's concentrations in Florida and Texas strengthen our presence in two of the fastest growing states in the country."*

*"HireQuest continues to identify strategic inorganic opportunities to deploy our capital to create long-term, sustainable value," added Mr. Hermanns. "These acquisitions should also accelerate organic growth as our existing franchisees also seek expansion opportunities. The two recently announced pending acquisitions will help diversify our revenue streams and solidify our competitive position."*

*HireQuest will fund this acquisition with cash on hand and its line of credit with Truist Bank. Completion of the transaction is subject to a number of closing conditions. Subject to such conditions, the transaction is expected to close by the end of March 2021. During the interim, both HireQuest and LINK offices are expected to remain open for business without interruption.*

Obviously, HireQuest management has been busy. This dovetails into some of our thoughts regarding the Snelling transaction. First, we suspect that the pandemic may improve the Company's acquisition pool and second, these additions both include commercial staffing footprints (as opposed to it legacy direct dispatch business), which as we noted, we think HireQuest may be able to leverage on multiple fronts.

As a result of integrating *this* acquisition into our model, we are establishing yet another new 12-24 month price target of \*\$20.00 per share based on what our model tells us about adding this new piece. Obviously, those conclusions may change as visibility regarding the success/challenges of the integration of each of these news pieces emerges, but our sense here is that (as we alluded to in the prior update), beyond the

“cumulative” approach we are taking (1+1+1 =3), we think the addition of this new commercial staffing approach, may create some synergies (1+1+1 =4) that we are not including here. On the flip side, while we have seen them successfully integrate additions in the past (the Command Center acquisition), we submit that these could conceivably prove more difficult and as a result not as additive as we are modeling. Moreover, we still remain guarded on the macro environment (unemployment) that could negatively impact the industry in general and ostensibly HQI as well. As a bit of an extension of that thought but more preponderantly because of the recent increase in the price of HQI shares towards our (albeit increasing) price target, we are also lowering our allocation from 5 to \*\*4. Just to edify, we generally start initiations with allocations of 4. (By the way, there is a description of our allocation methodology at the end of this update). Those allocations change over time depending on changes in underlying micro and/or macro fundamentals, our price target outlook but also changes in shares prices over time. For instance, we often raise our allocations when the underlying share prices experience weakness that is not associated with any particular (negative) fundamental changes we can identify. In the case of HQI, that occurred in late 2018 when the share price dipped to \$3.88, which represented a roughly 12% discount to our initiating price. We raised the allocation from 4 to 5 at that time, so this allocation decrease represents a return to our original initiating allocation.

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## Projected Operating Overview

<b>Projected Operating Statement</b>								
<b>HireQuest, Inc.</b>								
<b>By: Trickle Research LLC</b>	(actual)	(actual)	(actual)	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)
	<u>3/31/20</u>	<u>6/30/20</u>	<u>9/30/20</u>	<u>12/31/20</u>	<u>Fiscal 2020</u>	<u>Fiscal 2021</u>	<u>Fiscal 2022</u>	
Franchise Royalties	\$ 3,705,232	\$ 2,639,287	\$ 3,218,606	\$ 3,341,943	\$ 12,905,067	\$ 25,355,587	\$ 32,476,067	
Service Revenues	\$ 414,739	\$ 261,703	\$ 164,074	\$ 206,481	\$ 1,046,997	\$ 1,215,561	\$ 1,988,565	
Total Revenues	\$ 4,119,971	\$ 2,900,990	\$ 3,382,680	\$ 3,548,424	\$ 13,952,064	\$ 26,571,148	\$ 34,464,632	
Selling, general, and administrative expenses	\$ 3,253,372	\$ 1,931,076	\$ 1,357,725	\$ 2,100,559	\$ 8,642,732	\$ 12,244,228	\$ 17,174,393	
Depreciation and amortization	\$ 31,814	\$ 32,402	\$ 32,438	\$ 33,303	\$ 129,957	\$ 130,240	\$ 125,610	
Income from operations	\$ 834,785	\$ 937,512	\$ 1,992,517	\$ 1,414,561	\$ 5,179,375	\$ 14,196,679	\$ 17,164,629	
Interest expense and other financing expense	\$ (11,289)	\$ (17,850)	\$ (10,035)	\$ (10,931)	\$ (50,105)	\$ 914,187	\$ 739,984	
Other Miscellaneous Income	\$ 250,709	\$ 288,837	\$ 392,709	\$ -	\$ 932,255	\$ 0	\$ 0	
Net income before income taxes	\$ 1,074,205	\$ 1,208,499	\$ 2,375,191	\$ 1,403,630	\$ 6,061,525	\$ 13,282,492	\$ 16,424,645	
Provision for income taxes	\$ 199,037	\$ 51,497	\$ 404,058	\$ 322,835	\$ 977,427	\$ 3,054,973	\$ 3,777,668	
Income From Continuing Operations								
Income From Discontinued Operations								
Net Income	\$ 875,168	\$ 1,157,002	\$ 1,971,133	\$ 1,080,795	\$ 5,084,098	\$ 10,227,518	\$ 12,646,977	
<b>Earnings per share:</b>								
Basic	\$ 0.06	\$ 0.09	\$ 0.15	\$ 0.08	\$ 0.38	\$ 0.77	\$ 0.96	
Diluted	\$ 0.06	\$ 0.09	\$ 0.15	\$ 0.08	\$ 0.37	\$ 0.77	\$ 0.95	
<b>Weighted average shares outstanding:</b>								
Basic	\$ 13,536,742	\$ 13,547,950	\$ 13,573,086	\$ 13,465,151	13,530,732	13,260,743	13,172,880	
Diluted	\$ 13,680,565	\$ 13,549,727	\$ 13,574,863	\$ 13,479,476	13,571,158	13,302,042	13,248,594	

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Trickle Research co-sponsors two microcap conferences each year. Trickle Research encourages its coverage companies to present at those conferences and Trickle charges them a fee to do so. Companies are under no obligation to present at these conferences. HireQuest, (as Command Center) has paid fees to present at past investor conferences co-sponsored by Trickle Research LLC.

Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

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## **Rating System Overview:**

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1

"investment unit" (for my performance purposes, 1 "investment unit" equals \$250) and 10 representing 10 investment units or \$2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit \$25,000 to buying micro-cap stocks, that would assume an investment of \$1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to perhaps add another 5 of the names from our profiles). We generally start initial coverage stocks with an allocation of 4. Thus, at \$1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same \$250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting \$1000 into the position ( $\$250 * 4$ ). If we later raise the allocation to 6, you might consider adding two additional units or \$500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

**For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.**

**A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.**

**A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.**

**A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.**